Talent on Demand: Managing Talent in an Uncertain Age

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What is Talent Management? Why should we care about it?

- The issue is resources.
- Matching supply to demand:
  - The supply chain analogy –
Two Options for Getting Human Capital -

• In the traditional model, supply meant internal development
  > Up-front investment in candidates, recouped over time through improved performance
  > Can make money this way
  > Can also lose money if lose the investment

• Outside hiring, pay as you go
  > Can’t earn a return or be a source of advantage
The rise of the great corporate career

*Different practices made sense at different times*

- **Open markets in the early years**
- **The Rise of the Planning Approach**
  > 1950s-'60s average Fortune 500 exec had been with their company 24 years
  > Engineers and “blocked” technical career paths
- **The typical career path…**
  > 12-18mo training
  > 18-21 month job rotation
  > “Hi potential” program – accelerated promotions
  > 75% execs had > 5yrs on corporate staff
  > 40% execs began in marketing/sales
  > Detailed workforce and succession plans – 15 years out
Which is the Kindergarten Report Card
Which is the Performance Appraisal?

**System A**

Rank candidates on a scale of…Very Satisfactory – Satisfactory – Unsatisfactory

- Dependability
- Stability
- Imagination
- Originality
- Self-expression
- Health and Vitality
- Ability to plan and control
- Cooperation
System B
Rank candidates on a scale of... Satisfactory – Improving – Needs Improvement

• Can be depended upon
• Contributes to the good work of others
• Accepts and uses criticism
• Thinks critically
• Shows initiative
• Plans work well
• Physical resistance
• Self-expression
• Creative ability
The internal model breaking up:
Demand is uncertain, people quit

The notion of a secure, long-term career is harder to imagine.
President/CEO tenure was:
10 yrs in 1950s;
5 years in 1960s;
<3 yrs now

CEO turnover (and exec team) up 53% since ’95
> Rising 2x as fast in UK and Europe as in US
> Firing for performance biggest cause, 2x as retirement
> 54% VP vacancies and above have an outside search
> Taleo reports 2/3rds of vacancies now filled from outside

Restructuring is non-stop
> AMA survey – 49% have downsizings even during the “boom” years
> Fortune 500 now employ ½ as many as 20 years ago
> 63 percent cutting in one division and expanding in another
> Cuts happened faster in this downturn than any time before
> Employee Tenure: Down with employer/ Up with occupation
Little Sophistication in talent management now….

- In the management ranks - 2003 SHRM firm survey – 60% have *no* succession planning of any kind
  > More than 70% had it in late 1970s
- In the workforce as a whole - 2004 IPMA-HR survey – 63% have *no* workforce planning of any kind
  > 96% of large companies *had a dedicated planning department in 1950s*!
What changed on the employee side?

_How did they respond to end of lifetime employment?_
## I would change jobs for…?

<table>
<thead>
<tr>
<th>I would leave for…</th>
<th>25% of Workers</th>
<th>50% of Workers</th>
<th>75% of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>Dollars</td>
<td>Units</td>
</tr>
<tr>
<td>Stock Grant Face Value</td>
<td>50 shares</td>
<td>$500</td>
<td>100 shares</td>
</tr>
<tr>
<td>Vacation Days*</td>
<td>7 days</td>
<td>$652</td>
<td>10 days</td>
</tr>
<tr>
<td>Bonus Opportunity</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Salary Increase*</td>
<td>10%</td>
<td>$3,750</td>
<td>20%</td>
</tr>
<tr>
<td>Potential Salary in Five Years</td>
<td>$6,000</td>
<td>$6,000</td>
<td>$15k</td>
</tr>
<tr>
<td>One-time Retirement Contribution</td>
<td>$5,000</td>
<td>$5,000</td>
<td>$20K</td>
</tr>
</tbody>
</table>

Does the Next Generation Really Have Different Attitudes Toward Employers?

What do they expect from jobs?
How should we manage them?
Characteristics in First Employers*
Please rate the importance of each of the following in choosing a first employer

- Challenging assignments
- Company values balance between personal life and career
- Competitive benefits
- Competitive salary
- Financial strength
- Good reference for my future career
- High-achiever program
- High ethical standards
- Immediate responsibility
- Likeable/inspiring colleagues
- Ongoing educational opportunities
- Opportunity to influence my own work schedule
- Opportunity to specialize
- Opportunities for continuous learning
- Secure employment
- Variety of tasks or assignments

* From Pricewaterhouse survey of 1500 MBA students from around the world
## Characteristics in First Employers

Please rate the importance of each of the following in choosing a first employer

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good reference for my future career</td>
<td>42%</td>
</tr>
<tr>
<td>Company values balance between personal life and career</td>
<td>41%</td>
</tr>
<tr>
<td>Likeable/inspiring colleagues</td>
<td>37%</td>
</tr>
<tr>
<td>Competitive salary</td>
<td>34%</td>
</tr>
<tr>
<td>Challenging assignments</td>
<td>33%</td>
</tr>
<tr>
<td>Competitive benefits</td>
<td>32%</td>
</tr>
<tr>
<td>Opportunities for continuous learning</td>
<td>31%</td>
</tr>
<tr>
<td>Opportunity to specialize</td>
<td>30%</td>
</tr>
<tr>
<td>Secure employment</td>
<td>30%</td>
</tr>
<tr>
<td>Financial strength</td>
<td>29%</td>
</tr>
<tr>
<td>High ethical standards</td>
<td>29%</td>
</tr>
<tr>
<td>Ongoing educational opportunities</td>
<td>27%</td>
</tr>
<tr>
<td>High-achiever program</td>
<td>26%</td>
</tr>
<tr>
<td>Variety of tasks or assignments</td>
<td>26%</td>
</tr>
<tr>
<td>Immediate responsibility</td>
<td>24%</td>
</tr>
<tr>
<td>Opportunity to influence my own work schedule</td>
<td>24%</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Google</td>
<td>1</td>
</tr>
<tr>
<td>McKinsey &amp; Company</td>
<td>2</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>3</td>
</tr>
<tr>
<td>The Boston Consulting Group</td>
<td>4</td>
</tr>
<tr>
<td>Apple Computer</td>
<td>5</td>
</tr>
<tr>
<td>Bain &amp; Company</td>
<td>6</td>
</tr>
<tr>
<td>J.P. Morgan</td>
<td>7</td>
</tr>
<tr>
<td>Walt Disney Company</td>
<td>8</td>
</tr>
<tr>
<td>Nike</td>
<td>9</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>10</td>
</tr>
<tr>
<td>Amazon</td>
<td>11</td>
</tr>
<tr>
<td>Deloitte</td>
<td>12</td>
</tr>
<tr>
<td>The Blackstone Group</td>
<td>13</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>14</td>
</tr>
<tr>
<td>Microsoft</td>
<td>15</td>
</tr>
</tbody>
</table>
What do *our* students say? “*In your last job...*”

- % who could identify the next promotion ___
- % who thought they had good chance of getting that promotion ___
- % who thought they could become a leader if stayed with their company ___
- % of their execs who came from within ___
- How long they would wait for opportunity ___
The New Challenge for Talent Management....

- Generating the supply of talent to match estimated demand
  - When demand is very hard to predict
  - When the supply of talent won’t stay put

- The “mismatch problem” that killed corporate talent mgmt in the 1970s
  - The talent glut in the 1980s
  - ...absorbed by the 1990s expansion
The Four Principles of Managing Talent

- 1. Avoid Mismatch Costs – Balance “Make and Buy”
- 2. Reduce Risk with Shorter Forecasts and Portfolio Approaches
- 3. Design Development to Ensure Payback
- 4. Balance Employee Interests in Career Moves
#1 How to Think About The “Make or Buy” Decision:

- “Making” Talent is Cheaper, Better *IF* You’re Certain You’ll Need it
- “Buying” Talent/Just-in-Time Hiring, Costs More but Reduces Risk
  > How accurate is your forecast of demand?
    - If not very, do more buying
  > How long will the “talent” be needed?
    - If not long, do more buying
  > Do you have job ladders or “scale”?
    - If not, easier to hire
    - Hiring also changes organizational culture
Use a Mix of “Make and Buy” to Reduce Mismatch Costs

• From forecasts to simulations
  > Address the uncertainty
• Use supply chain analyses to minimize “mismatch costs”
  > Are “Deep benches” inventory?
  > Overshooting is often more expensive –
  > Use outside hiring to fill in gaps
• Only hiring from outside also a mistake
  > Expensive, disrupts unique skills and culture
#2 – Managing Uncertainty

- The logic of portfolios for reducing uncertainty
  - Centralize all development programs –
    - Balance out mismatches
  - Forget “succession planning”
  - “Talent pools” instead – match basic development to basic demand
    - Just-in-time development to fit

- Improve responsiveness –
  - Hire more frequently
  - Delay specific development
    - E.g., no “5 yr manufacturing program” Instead, “3 yr general mgmt development” & “2 yr special manufacturing program”
Making Development Pay Off…
#3 Developing Talent Internally – The Challenge is Earning a Return

- Reducing upfront costs – finding cheaper delivery options
- Improve employee retention
  > Make it more predictable
- Sharing development costs with employees
  > Training wages, tuition assistance plans, promote then develop, etc.
  > Increase employee value through work-based training and experience
    — Asking for volunteers
The Real Key to Creating Value – *get up that curve faster*

- Spot talent early and give opportunity before they could get it elsewhere
- Performance v. potential in identifying candidates –
- Self-selection as an alternative approach
- How to spot talent and give opportunity?
  > Can try to assess/predict who will succeed?
  > Give it a try–P&G motto “Fail quickly and cheaply”
  > GE model: Keep small P&L for screening
What was your best developmental experience?

Q: What can you do to help your own employees?
The skill of developing and managing talent means...

- Matching development needs to available opportunities: *Tasks, not jobs*
- *Moving people around is the key*
- The technology behind better matches
  - This requires IT help: See EDS
- Doesn’t require changing jobs
  - Projects, tasks, coaching
  - Being opportunistic, negotiating for opportunity
#4 – Career Paths

**Getting the right people in the right jobs and giving them a say**

- The “Chess Master” model
  - Downside: Best candidates can go elsewhere
- Internal mobility programs - 96% large companies have them
  - Only ½ require current manager’s approval
  - McKinsey vs. Microsoft models
- How much direction and advice to give?
  - Raise expectations vs. losing control
  - Fidelity approach
  - IBM’s “hot skills” index
The Long-Run Trend

• Challenge of uncertainty unlikely to go away
  > Old “planning model” requires certainty
• Pressure for cost control in talent mgmt likely to grow
• “Skill shortage” driven by reliance on outside hiring and lack of development
• We need a different approach
TALENT ON DEMAND

Managing Talent in an Age of Uncertainty

PETER CAPPPELLI

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